

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Littlefield Public School	County Emmet
Fiscal Year End June 30, 2006	Opinion Date August 4, 2006	Date Audit Report Submitted to State October 4, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations)



Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission

I, the undersigned, certify that this statement is complete and accurate in all respects

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number 231-627-3143	
Street Address 902 S. Huron Street, PO Box 250		City Cheboygan	State MI
Zip 49721			
Authorizing CPA Signature 	Printed Name Annette M. Eustice, CPA, CGFM	License Number 1101019667	



HOME OF THE VIKINGS

LITTLEFIELD PUBLIC SCHOOL

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

LITTLEFIELD PUBLIC SCHOOL
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INDEPENDENT AUDITORS' REPORT

August 4, 2006

Board of Education
Littlefield Public School
Alanson, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of ***Littlefield Public School***, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of ***Littlefield Public School's*** management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of ***Littlefield Public School*** as of June 30, 2006, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 4, 2006 on our consideration of ***Littlefield Public School's*** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3-10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise ***Littlefield Public School's*** basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the Littlefield Public School (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2006.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$1,366,887 (*net assets*). Of this amount, \$390,748 (*unrestricted net assets*) may be used to meet the District's ongoing obligations and \$63,612 is reserved for debt service.
- The government's total net assets increased by \$53,221, which includes a prior period adjustment of \$17,213.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$726,388, a decrease of \$85,763 in comparison with the prior year. Approximately 91%, or \$662,776, is *available for spending* at the District's discretion (*unreserved fund balance*). Of the unreserved fund balance, 44% or \$293,578 has been designated for capital improvements and retirement benefits.
- At the end of the current fiscal year, unreserved, undesignated fund balance for the General Fund was \$347,659 or 10% of total General Fund expenditures (excluding transfers out).
- The District's total debt decreased by \$323,514 during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) District-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

District-wide financial statements. The *District-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused sick or vacation leave).

Both of the District-wide financial statements present functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the District include instruction, supporting services, food services and athletics. The District has no business-type activities as of and for the year ended June 30, 2006.

The District-wide financial statements can be found on pages 11-12 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the District-wide financial statements. However, unlike the District-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the District-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the District-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balances for the General Fund, which is considered to be the only major fund. Data from the other four governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts an annual appropriated budget for its General Fund and each special revenue fund. A budgetary comparison statement has been provided for the General Fund herein to demonstrate compliance with that budget.

The basic governmental fund financial statements can be found on pages 13-17 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are *not* reflected in the District-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The only fiduciary fund of the District is an agency fund, which does not have a measurement focus.

The basic fiduciary fund financial statements can be found on page 18 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the District-wide and fund financial statements. The notes to the financial statements can be found on pages 19-31 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining fund and other statements and schedules can be found on pages 32-40 of this report.

District-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded its liabilities by \$1,366,887 at the close of the most recent fiscal year.

By far the largest portion of the District's net assets (67%) reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to the students it serves; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District's net assets (4%) represents resources that are subject to external restrictions on how they may be used. The remaining balance, (29% or \$390,748), is *unrestricted net assets* and is available for spending at the District's discretion.

Littlefield Public School Condensed Statement of Net Assets

	<u>2006</u>	<u>2005</u>
Assets		
Current assets	\$1,139,356	\$1,294,229
Capital assets, net	<u>3,791,089</u>	<u>3,971,358</u>
Total assets	<u>4,930,445</u>	<u>5,265,587</u>
Liabilities		
Current and other liabilities	740,440	797,415
Long-term liabilities outstanding	<u>2,823,118</u>	<u>3,154,506</u>
Total liabilities	<u>3,563,558</u>	<u>3,951,921</u>
Net assets		
Invested in capital assets, net of related debt	912,527	840,838
Restricted	63,612	74,714
Unrestricted	<u>390,748</u>	<u>398,114</u>
Total net assets	<u>\$1,366,887</u>	<u>\$1,313,666</u>

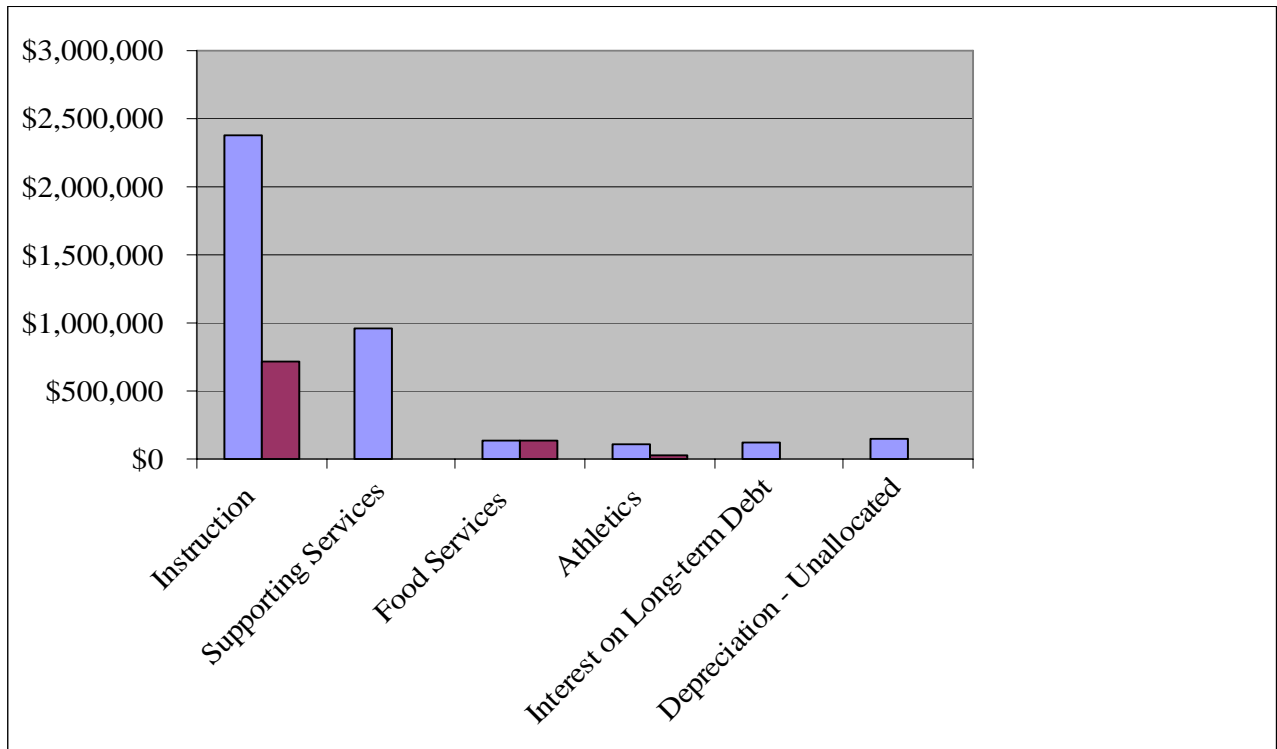
The District's net assets increased by \$53,221 during the current fiscal year. Of this increase, \$17,213 relates to a prior period adjustment to remove payroll tax expenses on the retirement incentive payments. Also, unrestricted investment earnings increased by \$33,720.

**Littlefield Public School
Condensed Statement of Changes in Net Assets**

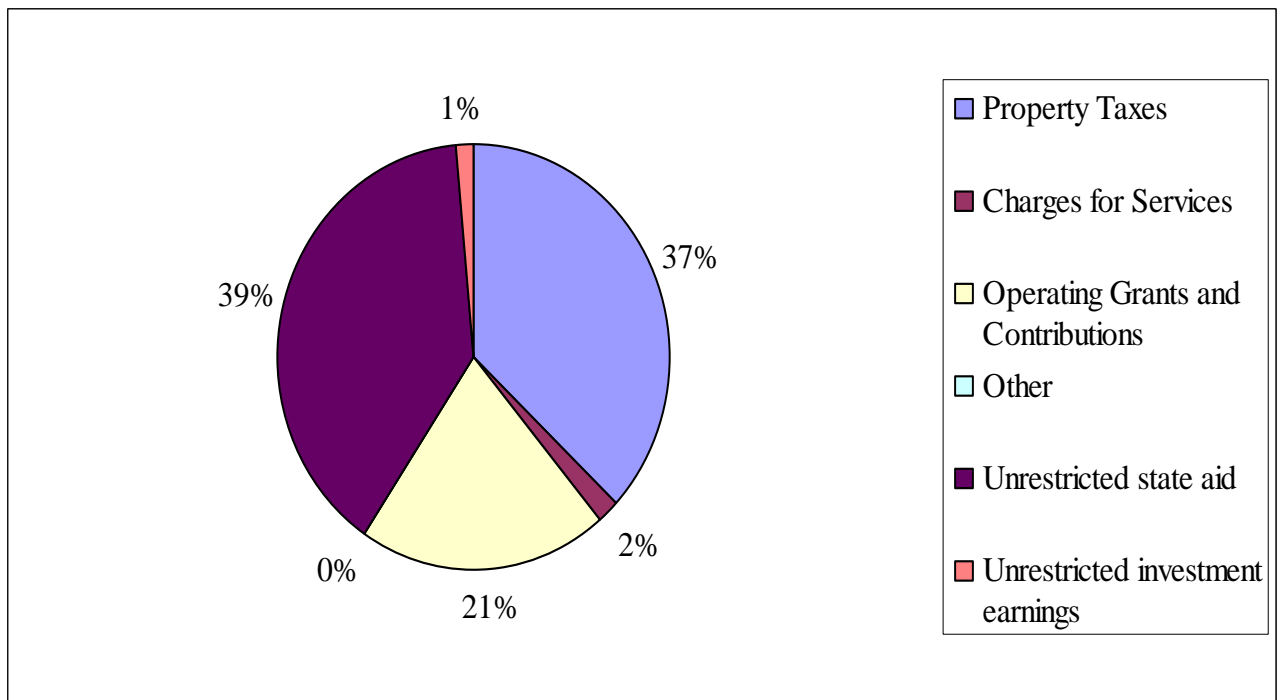
	<u>2006</u>	<u>2005</u>
Revenues		
Program revenues		
Charges for services	\$ 73,054	\$ 127,235
Operating grants and contributions	800,801	624,918
General revenues		
Property taxes	1,445,251	1,248,075
Unrestricted state aid	1,524,184	1,930,602
Unrestricted investment earnings	54,271	20,551
Other	<u>4,368</u>	<u>127,968</u>
Total revenues	<u>3,901,929</u>	<u>4,079,349</u>
Expenses		
Instruction	2,380,980	2,617,890
Supporting services	966,163	1,152,065
Food services	138,032	137,637
Athletics	108,910	101,584
Interest on long-term debt	128,331	136,803
Depreciation – unallocated	<u>143,505</u>	<u>143,504</u>
Total expenses	<u>3,865,921</u>	<u>4,289,483</u>
Change in net assets	36,008	(210,134)
Net assets, beginning of year	1,313,666	1,523,800
Prior period adjustment	<u>17,213</u>	<u>-</u>
Net assets, end of year	<u>\$ 1,366,887</u>	<u>\$ 1,313,666</u>

Governmental activities. Governmental activities increased the District's net assets by \$36,008.

Expenses and Program Revenues - Governmental Activities



Revenues by Source - Governmental Activities



Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$726,388, a decrease of \$85,763 in comparison with the prior year. Approximately 91% or \$662,776 of this total amount constitutes *unreserved fund balance*, which is available for spending at the District's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because the underlying assets are included in contractual obligations for repayment of bonds and are not available for current expenditure.

The General Fund is the principal operating fund of the District. At the end of the current fiscal year, unreserved, undesignated fund balance of the General Fund was \$347,659, while total fund balance was \$641,237. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved, undesignated and total fund balance to total fund expenditures. Unreserved, undesignated fund balance and total fund balance represent approximately 10% and 19%, respectively, of total General Fund expenditures (excluding transfers out).

The fund balance of the District's General Fund decreased by \$74,925 during the current fiscal year. This decrease is primarily attributable to fewer than anticipated students, no increase in the state aid per student allotment and higher than anticipated expenditures.

General Fund Budgetary Highlights

The following were differences between the original and final amended budgets (all numbers are approximate):

- Property taxes, original budget \$1,131,000, amended budget \$1,083,965; attributable to estimating the original budget and many corrections made by Emmet County.
- State school aid, original budget \$1,694,625, amended budget \$1,503,479; attributable to ties to property tax amount and fewer than anticipated students.
- Secondary education – salaries, original budget \$372,787, amended budget \$412,266; attributable to reconfiguration of teacher positions, particularly in special education.
- Compensatory education, original budget \$191,155, amended budget \$140,324; attributable to reduction in allocation and change in staff structure.
- Executive administration – salaries, original budget \$82,349, amended budget \$83,996; attributable to staff retirement and payout of sick/vacation time.

- Office of the principal – salaries, original budget \$108,210, amended budget \$51,245; attributable to change in structure of the office. A curriculum director position was reclassified out of the office of the principal category with an amended budget of \$48,729.

Differences between the final amended budget and actual revenues and expenditures were relatively minor.

Capital Asset and Debt Administration

Capital assets. The District's investment in capital assets for its governmental activities as of June 30, 2006, amounted to \$3,791,089 (net of accumulated depreciation). This investment in capital assets includes land, buildings, vehicles and equipment. There were no capital asset events during the current fiscal year.

Littlefield Public School Capital Assets (net of depreciation, if applicable)

Land	\$ 6,000
Buildings	3,213,105
Site Improvements	392,844
Equipment	61,774
Vehicles	<u>117,366</u>
Total	<u>\$ 3,791,089</u>

Additional information on the District's capital assets can be found in note III C on pages 25-26 of this report.

Long-term debt. At the end of the current fiscal year, the District had total bonded debt outstanding of \$2,878,562. Of this amount, \$23,562 is a Durant resolution bond which is not a general obligation of the District and does not constitute an indebtedness of the District within any constitutional or statutory limitations, and is payable solely from state appropriations.

An increase in the compensated absences liability increased debt by \$5,657. This increase, combined with repayments of \$311,958 and a prior period adjustment of \$17,213, resulted in a net decrease of \$323,514 (9%) during the current fiscal year.

Additional information on the District's long-term debt can be found in note III F on pages 27-28 of this report.

Factors Bearing on the District's Future

The following factors were considered in preparing the District's budget for the 2006-2007 fiscal year:

- Projected number of students enrolled for the 2006/2007 fiscal year decreased to 365 (392.94 actual pupil count for 2005/2006 fiscal year).
- In anticipation of a continuing financial downturn in 2006-2007, several budget cuts were made in staffing levels, including the lay-off of two teachers (associated cost reduction - \$100,000), a reduction in one teacher (\$46,000), a further reduction in secretarial staff (\$20,000), and the layoff of paraprofessionals (\$15,000).
- The District privatized its financial services in 2004/2005 under a three-year contract, saving the District approximately \$9,000 per year.
- Student services were affected as the District has decided to cut fieldtrips that cost approximately \$6,000. The District also decided to suspend payment for class sponsors (\$7,500); nonetheless, retaining sponsors on a volunteer basis has not posed a problem.
- Inflationary trends in the region compare favorably to national indices.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Bently Laser, Superintendent, 7400 North Street, Alanson, MI 49706.

BASIC FINANCIAL STATEMENTS

DISTRICT-WIDE FINANCIAL STATEMENTS

LITTLEFIELD PUBLIC SCHOOL

STATEMENT OF NET ASSETS

JUNE 30, 2006

ASSETS	
Cash and cash equivalents	\$ 165,626
Investments	607,351
Receivables	366,379
Capital assets, net of accumulated depreciation, if applicable	<u>3,791,089</u>
Total assets	<u>4,930,445</u>
 LIABILITIES	
Payables	323,551
Unearned revenue	77,867
Long-term liabilities	
Due within one year	339,022
Due in more than one year	<u>2,823,118</u>
Total liabilities	<u>3,563,558</u>
 NET ASSETS	
Invested in capital assets, net of related debt	912,527
Restricted for debt service	63,612
Unrestricted	<u>390,748</u>
Total net assets	<u>\$ 1,366,887</u>

The accompanying notes are an integral part of these basic financial statements.

LITTLEFIELD PUBLIC SCHOOLS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2006

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Instruction	\$ 2,380,980	\$ 13,726	\$ 697,713	\$ (1,669,541)
Supporting services	966,163	-	2,113	(964,050)
Food services	138,032	35,683	100,975	(1,374)
Athletics	108,910	23,645	-	(85,265)
Interest on long-term debt	128,331	-	-	(128,331)
Depreciation - unallocated	143,505	-	-	(143,505)
Total governmental activities	\$ 3,865,921	\$ 73,054	\$ 800,801	(2,992,066)
General revenues				
Property taxes - operations				1,085,922
Property taxes - debt service				359,329
Unrestricted state aid				1,524,184
Unrestricted investment earnings				54,271
Other				4,368
Total general revenues				3,028,074
Change in net assets				36,008
Net assets, beginning of year				1,313,666
Prior period adjustment				17,213
Net assets, beginning of year, as restated				1,330,879
Net assets, end of year				\$ 1,366,887

The accompanying notes are an integral part of these basic financial statements.

FUND FINANCIAL STATEMENTS

LITTLEFIELD PUBLIC SCHOOL

BALANCE SHEET GOVERNMENTAL FUNDS

JUNE 30, 2006

	<u>General Fund</u>	<u>Non- Major Funds</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 82,311	\$ 83,315	\$ 165,626
Investments	607,351	-	607,351
Accounts receivable	2,326	-	2,326
Due from other governmental units	338,655	25,398	364,053
Total assets	<u>\$ 1,030,643</u>	<u>\$ 108,713</u>	<u>\$ 1,139,356</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 18,585	\$ -	\$ 18,585
Salaries payable and related expenses	284,972	-	284,972
Unearned revenue	85,849	23,562	109,411
Total liabilities	<u>389,406</u>	<u>23,562</u>	<u>412,968</u>
Fund balances			
Reserved			
Debt service	-	63,612	63,612
Unreserved			
Designated			
Capital improvements	10,000	-	10,000
Retirement benefits	283,578	-	283,578
Undesignated, reported in			
General Fund	347,659	-	347,659
Special Revenue Funds	-	21,539	21,539
Total fund balances	<u>641,237</u>	<u>85,151</u>	<u>726,388</u>
Total liabilities and fund balances	<u>\$ 1,030,643</u>	<u>\$ 108,713</u>	<u>\$ 1,139,356</u>

Continued...

LITTLEFIELD PUBLIC SCHOOL

BALANCE SHEET GOVERNMENTAL FUNDS

JUNE 30, 2006

Reconciliation of fund balances on the balance sheet for governmental funds to net assets of governmental activities on the statement of net assets

Fund balances - total governmental funds	\$ 726,388
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Amounts reported for governmental activities in the statement of net assets are different because

Capital assets used in governmental activities are not financial resources and are therefore not reported in the funds.

Add	- capital assets	6,995,185
Deduct	- accumulated depreciation	(3,204,096)

The focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by unearned revenues in the governmental funds, and thus are not included in fund balance.

Add	- unearned revenues related to Durant settlement	31,544
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Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct	- bonds payable	(2,878,562)
	- compensated absences	(118,578)
	- early retirement	(165,000)
	- accrued interest on bonds payable	(19,994)

Net assets of governmental activities	<u>\$ 1,366,887</u>
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Concluded

The accompanying notes are an integral part of these basic financial statements.

LITTLEFIELD PUBLIC SCHOOL

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2006

	<u>General</u>	<u>Non-Major Funds</u>	<u>Total</u>
Revenues			
Local sources	\$ 1,150,853	\$ 428,204	\$ 1,579,057
State sources	1,732,957	13,937	1,746,894
Federal sources	200,424	89,840	290,264
Interdistrict sources	291,663	-	291,663
Total revenues	<u>3,375,897</u>	<u>531,981</u>	<u>3,907,878</u>
Expenditures			
Current			
Instruction	2,375,585	-	2,375,585
Supporting services	930,819	-	930,819
Food services	-	137,198	137,198
Athletics	-	108,063	108,063
Debt service			
Principal	60,000	251,958	311,958
Interest	-	130,018	130,018
Total expenditures	<u>3,366,404</u>	<u>627,237</u>	<u>3,993,641</u>
Revenues over (under) expenditures	<u>9,493</u>	<u>(95,256)</u>	<u>(85,763)</u>
Other financing sources (uses)			
Transfers in	-	84,418	84,418
Transfers out	(84,418)	-	(84,418)
Total other financing sources (uses)	<u>(84,418)</u>	<u>84,418</u>	<u>-</u>
Changes in fund balances	(74,925)	(10,838)	(85,763)
Fund balances, beginning of year	716,162	95,989	812,151
Fund balances, end of year	<u>\$ 641,237</u>	<u>\$ 85,151</u>	<u>\$ 726,388</u>

Continued...

LITTLEFIELD PUBLIC SCHOOL

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2006

Reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities

Net change in fund balances - total governmental funds	\$ (85,763)
--	-------------

Amounts reported for *governmental activities* in the statement of activities are different because

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Deduct - depreciation expense	(180,269)
-------------------------------	-----------

Current revenues in the funds that were recorded as revenues in prior years in the statement of activities.

Deduct - decrease in unearned revenue related to Durant settlement	(5,948)
--	---------

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add - principal payments on long-term liabilities	251,958
---	---------

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add - net decrease in the accrual for retirement incentives	60,000
Add - decrease in accrued interest payable on bonds	1,687
Deduct - net increase in the accrual for compensated absences	(5,657)

Change in net assets of governmental activities	<u>\$ 36,008</u>
---	------------------

Concluded

The accompanying notes are an integral part of these basic financial statements.

LITTLEFIELD PUBLIC SCHOOL

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2006

	Budget			Variance - Positive (Negative) Amended to Actual
	Original	Amended	Actual	
Revenues				
Local sources	\$ 1,202,600	\$ 1,148,081	\$ 1,150,853	\$ 2,772
State sources	1,797,805	1,711,608	1,732,957	21,349
Federal sources	247,108	200,423	200,424	1
Interdistrict sources	197,077	291,661	291,663	2
Total revenues	3,444,590	3,351,773	3,375,897	24,124
Expenditures				
Education				
Instruction	2,469,903	2,374,149	2,375,585	(1,436)
Support services	994,311	932,872	930,819	2,053
Debt service				
Principal	-	76,172	60,000	16,172
Total expenditures	3,464,214	3,383,193	3,366,404	16,789
Revenues over (under) expenditures	(19,624)	(31,420)	9,493	40,913
Other financing uses				
Transfers out	(75,000)	(84,418)	(84,418)	-
Changes in fund balance	(94,624)	(115,838)	(74,925)	40,913
Fund balance, beginning of year	716,162	716,162	716,162	-
Fund balance, end of year	\$ 621,538	\$ 600,324	\$ 641,237	\$ 40,913

The accompanying notes are an integral part of these basic financial statements.

LITTLEFIELD PUBLIC SCHOOL
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS

JUNE 30, 2006

ASSETS	
Cash and cash equivalents	<u><u>\$ 50,727</u></u>
LIABILITIES	
Scholarship payable	\$ 2,337
Due to student groups	<u>48,390</u>
Total liabilities	<u><u>\$ 50,727</u></u>

The accompanying notes are an integral part of these basic financial statements.

NOTES TO THE FINANCIAL STATEMENTS

LITTLEFIELD PUBLIC SCHOOL
NOTES TO THE FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

Littlefield Public School (the “District”) has followed the guidelines of the Governmental Accounting Standards Board’s Statement No. 14 and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

B. District-wide and fund financial statements

The District-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year ended 2006.

The statement of activities demonstrates the degree to which the direct expenses, of a given function or segment, are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the District-wide financial statements. The major individual governmental fund is reported as a separate column in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The District-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements, except for the agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

LITTLEFIELD PUBLIC SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for reimbursement type grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following major governmental fund:

The *General Fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

Additionally, the District reports the following fund types:

The *Special Revenue Funds* account for the various food service and athletic programs sponsored by the District.

The *Debt Service Funds* account for the principal and interest payments on the bonds used to finance various construction projects in the District.

The *Agency Fund* accounts for assets held for other groups and organizations and is custodial in nature.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the District-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided and 2) operating grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

LITTLEFIELD PUBLIC SCHOOL
NOTES TO THE FINANCIAL STATEMENTS

The effect of interfund activity has been eliminated from the District-wide financial statements.

D. Assets, liabilities and equity

1. Deposits and investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are reported at fair value.

2. Capital assets

Capital assets, which include property and equipment, are reported in the governmental activities column in the District-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	25-50
Site Improvements	20
Equipment	5-20
Vehicles and Buses	8

3. Termination benefits

Compensated absences

District policy permits certain employees, including teachers and support staff, to accumulate earned but unused sick pay benefits, which are paid when the employee separates from service with the District. All sick time is accrued when incurred in the District-wide statements.

No liability is recorded in the District-wide statements for accumulated vacation since hours earned do not vest.

LITTLEFIELD PUBLIC SCHOOL
NOTES TO THE FINANCIAL STATEMENTS

Special termination benefit

Occasionally, the District offers special incentives to employees during a brief period to encourage early retirement. All special termination benefits are accrued when incurred in the District-wide statements.

4. *Long-term obligations*

In the District-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net assets. Where applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

5. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and each special revenue fund. All annual appropriations lapse at fiscal year end.

The General Fund and each special revenue fund are under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. The budgets for the General Fund and each special revenue fund are adopted on a functional basis.

LITTLEFIELD PUBLIC SCHOOL
NOTES TO THE FINANCIAL STATEMENTS

B. Excess of expenditures over appropriations

Expenditures in excess of budgeted amounts at the legal level of control are disclosed in the Statements of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

A reconciliation of cash and cash equivalents and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets follows:

Statement of Net Assets	
Cash and cash equivalents	\$ 165,626
Investments	<u>607,351</u>
Total Statement of Net Assets	772,977
Statement of Fiduciary Net Assets	
Agency Funds	
Cash and cash equivalents	<u>50,727</u>
Total cash and cash equivalents and investments	<u>\$ 823,704</u>
Bank deposits	\$ 216,353
Investments in securities and mutual funds	<u>607,351</u>
Total deposits and investments	<u>\$ 823,704</u>

State statutes authorize the District to invest in:

- (a) Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the state. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- (b) Certificates of deposit insured by a state or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this state.

LITTLEFIELD PUBLIC SCHOOL
NOTES TO THE FINANCIAL STATEMENTS

- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- (e) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- (f) Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

The District's investment policy allows for all of these types of investments.

The District chooses to disclose its investments by specifically identifying each. As of year end, the District had the following deposits and investments:

<u>Deposit/Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Bank deposits	n/a	\$ 216,353	n/a
Michigan Liquid Asset Fund	n/a	<u>607,351</u>	S&P – AAAM
		<u>\$ 823,704</u>	

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified above. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year end.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$140,057 of the District's bank balance of \$254,819 was exposed to custodial credit risk because it was uninsured and uncollateralized.

LITTLEFIELD PUBLIC SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the District does not have a policy for investment custodial credit risk. On the investments listed above, there is no custodial credit risk, as these investments are uncategorized as to credit risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

B. Receivables

Receivables in the governmental activities are 99 percent due from other governments and 1 percent other receivables.

C. Capital assets

Capital assets activity for the year ended June 30, 2006 was as follows:

	Balance July 1, 2005	Additions	Balance June 30, 2006
Capital assets not being depreciated			
Land	\$ 6,000	\$ -	\$ 6,000
Capital assets being depreciated			
Buildings	5,806,555	-	5,806,555
Site improvements	572,618	-	572,618
Equipment	254,020	-	254,020
Vehicles and buses	355,992	-	355,992
Total capital assets being depreciated	6,989,185	-	6,989,185

LITTLEFIELD PUBLIC SCHOOL
NOTES TO THE FINANCIAL STATEMENTS

	Balance July 1, 2005	Additions	Balance June 30, 2006
Accumulated depreciation			
Buildings	\$ (2,477,663)	\$ (115,787)	\$ (2,593,450)
Site improvements	(151,995)	(27,779)	(179,774)
Equipment	(182,016)	(10,230)	(192,246)
Vehicles and buses	(212,153)	(26,473)	(238,626)
Total accumulated depreciation	<u>(3,023,827)</u>	<u>(180,269)</u>	<u>(3,204,096)</u>
Total capital assets being depreciated, net	<u>3,965,358</u>	<u>(180,269)</u>	<u>3,785,089</u>
Governmental activities capital assets, net	<u>\$ 3,971,358</u>	<u>\$ (180,269)</u>	<u>\$ 3,791,089</u>

Depreciation expense was charged to functions/programs of the District as follows:

Supporting services	\$ 35,083
Food service	834
Athletics	847
Depreciation – unallocated	<u>143,505</u>
Total depreciation expense	<u>\$ 180,269</u>

D. Payables

Payables are comprised of the following at June 30, 2006:

Accounts payable	\$ 18,585
Salaries payable and related expenses	284,972
Accrued expenses	<u>19,994</u>
Total payables	<u>\$ 323,551</u>

LITTLEFIELD PUBLIC SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

E. Interfund transfers

Transfers are used to move unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

For the year ended June 30, 2006, interfund transfers consisted of \$84,418 in transfers from the General Fund to the Nonmajor Special Revenue Athletics Fund to subsidize the athletic program.

F. Long-Term Debt

Long-term debt of the District consists of the following as of June 30, 2006:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Prior Period Adjustment</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable						
General obligation debt	\$ 3,105,000	\$ -	\$ 250,000	\$ -	\$ 2,855,000	\$ 275,000
Durant resolution debt	<u>25,520</u>	<u>-</u>	<u>1,958</u>	<u>-</u>	<u>23,562</u>	<u>2,023</u>
Total bonds payable	<u>3,130,520</u>	<u>-</u>	<u>251,958</u>	<u>-</u>	<u>2,878,562</u>	<u>277,023</u>
Other liabilities						
Compensated absences	112,921	5,657	-	-	118,578	1,999
Special termination benefit	<u>242,213</u>	<u>-</u>	<u>60,000</u>	<u>(17,213)</u>	<u>165,000</u>	<u>60,000</u>
Total other liabilities	<u>355,134</u>	<u>5,657</u>	<u>60,000</u>	<u>(17,213)</u>	<u>283,578</u>	<u>61,999</u>
Total long-term liabilities	<u>\$ 3,485,654</u>	<u>\$ 5,657</u>	<u>\$ 311,958</u>	<u>\$ (17,213)</u>	<u>\$ 3,162,140</u>	<u>\$ 339,022</u>

Long-term liabilities are as follows as of June 30, 2006:

General Obligation Bonds

1999 Building and Site Construction Bonds, due through May 1, 2014 with annual principal payments ranging from \$275,000 - \$400,000 and semi-annual installments of interest with rates ranging from 4.175% to 4.375%.

\$2,855,000

LITTLEFIELD PUBLIC SCHOOL
NOTES TO THE FINANCIAL STATEMENTS

Durant Resolution Bond

Durant Settlement Bonds, due through May 15, 2013 in annual installments of \$2,802 through May 15, 2012 and a final payment of \$13,224 on May 15, 2013, including interest at 4.761%. \$ 23,562

Total bonds **2,878,562**

Other liabilities 283,578

Total long-term liabilities **\$3,162,140**

The Durant School Improvement Bonds are serviced from funds made available to Michigan School Districts by an annual appropriation by the Michigan State Legislature. If the Legislature does not appropriate the funding required, the District is not liable to pay the debt service.

Bond debt service requirements

The annual requirements to service the bonds outstanding to maturity, including both principal and interest, are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 277,023	\$ 119,965	\$ 396,988
2008	307,120	109,212	416,332
2009	332,221	96,911	429,132
2010	362,326	83,606	445,932
2011	387,437	68,735	456,172
2012-2014	<u>1,212,435</u>	<u>108,291</u>	<u>1,320,726</u>
Total	<u>\$ 2,878,562</u>	<u>\$ 586,720</u>	<u>\$ 3,465,282</u>

Compensated absences and special termination benefits are generally liquidated by the General Fund.

LITTLEFIELD PUBLIC SCHOOL
NOTES TO THE FINANCIAL STATEMENTS

IV. OTHER INFORMATION

A. Risk management

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees. The District has purchased commercial insurance for general liability, property and casualty and health claims and participates in the MASB/SET-SEG (risk pool) for claims relating to employee injuries/workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

B. Property taxes

Property taxes are assessed as of December 31, and attach as an enforceable lien on property as of July 1 of the following year. School related property taxes are levied on December 1 each year, based on the previous years assessment, by township governments whose boundaries include property within the District, and are due on February 28. Delinquent real taxes are advanced to the District by the Revolving Tax Fund of the applicable County. Taxes are recorded as revenue in the year levied. Taxes receivable are recorded for property taxes collected within 60 days of year end, if any.

C. Defined benefit pension plan

Plan Description

The District contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits, and death benefits to plan members and beneficiaries. Benefit provisions are established and must be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling 1-800-381-5111.

LITTLEFIELD PUBLIC SCHOOL
NOTES TO THE FINANCIAL STATEMENTS

Funding Policy

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The current rate is 16.34% of annual covered payroll. The contribution requirements of plan members and the District are established by Michigan State statute and may be amended only by action of the State Legislature. The District's contributions to MPSERS for the years ended June 30, 2006, 2005 and 2004 were \$272,648, \$291,290, and \$272,146, respectively, equal to the required contributions for each year.

Other Post-employment Benefits

Retirees have the option of health coverage, which is funded on a cash disbursement basis by the District. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

D. Prior period adjustment

Payroll taxes had been added to the special termination benefit liability in the prior year financial statements. The District does not incur payroll taxes on the special termination benefits. Accordingly, beginning net assets in the government-wide financial statements were adjusted by \$17,213.

LITTLEFIELD PUBLIC SCHOOL
NOTES TO THE FINANCIAL STATEMENTS

E. Commitments and contingencies

Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement of the grantor or regulatory agencies. However, management does not believe such disallowances, if any, would be material to the financial position of the district.

As is the case with other entities, the District faces exposure from potential claims and legal proceedings involving environmental and other matters.

* * * * *

SUPPLEMENTARY INFORMATION

LITTLEFIELD PUBLIC SCHOOL

COMBINING BALANCE SHEET NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2006

	<u>Special Revenue Funds</u>		<u>Debt Service Funds</u>		
			1999 School Building And Site Construction	Durant Settlement	
	Food Service	Athletics			Total
ASSETS					
Assets					
Cash and cash equivalents	\$ 19,703	\$ -	\$ 63,612	\$ -	\$ 83,315
Due from other governmental units	1,836	-	-	23,562	25,398
Total assets	\$ 21,539	\$ -	\$ 63,612	\$ 23,562	\$ 108,713
LIABILITIES AND FUND BALANCES					
Liabilities					
Unearned revenue	\$ -	\$ -	\$ -	\$ 23,562	\$ 23,562
Fund balances					
Fund balances					
Reserved for debt service	-	-	63,612	-	63,612
Unreserved, undesignated	21,539	-	-	-	21,539
Total fund balances	21,539	-	63,612	-	85,151
Total liabilities and fund balances	\$ 21,539	\$ -	\$ 63,612	\$ 23,562	\$ 108,713

LITTLEFIELD PUBLIC SCHOOL

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2006

	Special Revenue Funds		Debt Service Funds		
	Food Service	Athletics	1999 School Building And Site Construction	Durant Settlement	Total
Revenues					
Local sources					
Property taxes	\$ -	\$ -	\$ 359,329	\$ -	\$ 359,329
Charges for services	35,683	23,645	-	-	59,328
Interest income	804	-	8,743	-	9,547
State sources	11,135	-	-	2,802	13,937
Federal sources	89,840	-	-	-	89,840
Total revenues	137,462	23,645	368,072	2,802	531,981
Expenditures					
Current					
Food services	137,198	-	-	-	137,198
Athletics	-	108,063	-	-	108,063
Debt service					
Principal	-	-	250,000	1,958	251,958
Interest	-	-	129,174	844	130,018
Total expenditures	137,198	108,063	379,174	2,802	627,237
Revenues over (under) expenditures	264	(84,418)	(11,102)	-	(95,256)
Other financing sources					
Transfers in	-	84,418	-	-	84,418
Changes in fund balances	264	-	(11,102)	-	(10,838)
Fund balances, beginning of year	21,275	-	74,714	-	95,989
Fund balances, end of year	\$ 21,539	\$ -	\$ 63,612	\$ -	\$ 85,151

LITTLEFIELD PUBLIC SCHOOL

BALANCE SHEET GENERAL FUND

JUNE 30, 2006

ASSETS	
Cash and cash equivalents	\$ 82,311
Investments	607,351
Accounts receivable	2,326
Due from other governmental units	<u>338,655</u>
Total assets	<u>\$ 1,030,643</u>
LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable	\$ 18,585
Salaries payable and related expenses	284,972
Unearned revenue	<u>85,849</u>
Total liabilities	<u>389,406</u>
Fund balance	
Fund balance	
Unreserved	
Designated	
Capital improvements	10,000
Retirement benefits	283,578
Undesignated	<u>347,659</u>
Total fund balance	<u>641,237</u>
Total liabilities and fund balance	<u>\$ 1,030,643</u>

LITTLEFIELD PUBLIC SCHOOL

SCHEDULE OF REVENUES GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2006

Revenues

Local sources

Property taxes	\$ 1,085,922
Charges for service	13,726
Interest	44,724
Other local revenue	<u>6,481</u>

Total local sources	<u>1,150,853</u>
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State sources

State school aid	1,524,184
Other state revenue	<u>208,773</u>

Total state sources	<u>1,732,957</u>
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Federal sources

Title I	138,182
Title II	56,467
Title V	1,022
Drug Free Grant	2,651
Other	<u>2,102</u>

Total federal sources	<u>200,424</u>
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Interdistrict sources	<u>291,663</u>
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Total revenues	<u><u>\$ 3,375,897</u></u>
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LITTLEFIELD PUBLIC SCHOOL

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2006

Expenditures

Instruction

Basic programs

Elementary

Salaries	\$ 541,432
Employee benefits	276,388
Purchased services	17,256
Supplies and materials	21,985

Total elementary	857,061
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Secondary

Salaries	415,062
Employee benefits	220,798
Purchased services	109,366
Supplies and materials	27,613
Capital outlay	226

Total secondary	773,065
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Total basic programs	1,630,126
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Added needs

Special education

Salaries	201,649
Employee benefits	128,437
Purchased services	6,737
Supplies and materials	1,311

Total special education	338,134
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Vocational education

Purchased services	167,670
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Compensatory education

Salaries	85,316
Employee benefits	43,083
Purchased services	4,488
Supplies and materials	7,436

Total compensatory education	140,323
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Continued...

LITTLEFIELD PUBLIC SCHOOL

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2006

At risk	
Salaries	\$ 57,828
Employee benefits	29,064
Purchased services	12,440
	<hr/>
Total at risk	99,332
	<hr/>
Total added needs	745,459
	<hr/>
Total instruction	2,375,585
	<hr/>
Supporting services	
Other pupil support services	
Salaries	6,337
Employee benefits	9,732
Supplies and materials	525
	<hr/>
Total other pupil support services	16,594
	<hr/>
Instructional staff	
Purchased services	4,737
	<hr/>
General administration	
Board of education	
Salaries	3,410
Benefits	818
Purchased services	27,733
Supplies and materials	4,218
	<hr/>
Total board of education	36,179
	<hr/>
Executive administration	
Salaries	81,857
Employee benefits	46,483
Purchased services	23,881
Supplies and materials	2,400
	<hr/>
Total executive administration	154,621
	<hr/>
Total general administration	190,800
	<hr/>

Continued...

LITTLEFIELD PUBLIC SCHOOL

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2006

School administration	
Office of the principal	
Salaries	\$ 51,245
Employee benefits	52,986
Purchased services	76,849
Supplies and materials	551
Total office of the principal	181,631
Other school administration	
Salaries	49,609
Employee benefits	11,524
Purchased services	10,873
Total other school administration	72,006
Total school administration	253,637
Business services	
Fiscal services	
Purchased services	57,469
Supplies and materials	1,013
Total fiscal services	58,482
Other business services	
Purchased services	11,679
Total business services	70,161
Operations and maintenance	
Salaries	30,829
Employee benefits	23,265
Purchased services	119,471
Supplies and materials	111,238
Capital outlay	23,850
Total operations and maintenance	308,653
Pupil transportation services	
Salaries	39,385
Employee benefits	9,619
Purchased services	16,468
Supplies and materials	20,765
Total pupil transportation services	86,237
Total supporting services	930,819
Total operating expenditures	3,306,404

Continued...

LITTLEFIELD PUBLIC SCHOOL

**SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
GENERAL FUND**

FOR THE YEAR ENDED JUNE 30, 2006

Debt service	
Principal - early retirement incentives	<u>\$ 60,000</u>
Total expenditures	3,366,404
Other financing uses	
Transfer out	<u>84,418</u>
Total expenditures and other financing uses	<u>\$ 3,450,822</u>
	Concluded

LITTLEFIELD PUBLIC SCHOOL
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
FOR THE YEAR ENDED JUNE 30, 2006

	Balances July 1, 2005	Receipts	Disbursements	Balances June 30, 2006
ASSETS				
Cash	<u>\$ 42,420</u>	<u>\$ 60,283</u>	<u>\$ 51,976</u>	<u>\$ 50,727</u>
LIABILITIES				
Due to student groups				
High school groups	\$ 33,172	\$ 51,078	\$ 43,694	\$ 40,556
Elementary school groups	6,911	9,205	8,282	7,834
Scholarship payable	<u>2,337</u>	<u>-</u>	<u>-</u>	<u>2,337</u>
Total liabilities	<u>\$ 42,420</u>	<u>\$ 60,283</u>	<u>\$ 51,976</u>	<u>\$ 50,727</u>
The balances at June 30, 2006 consist of the following				
Due to student groups				
High school groups				
Art	\$ (2)	\$ 445	\$ 382	\$ 61
Band	2,669	-	219	2,450
Cheerleaders	31	-	-	31
Class of 2006	9,551	7,503	17,054	-
Class of 2007	7,165	6,287	4,636	8,816
Class of 2008	1,186	3,373	1,016	3,543
Class of 2009	108	710	235	583
Class of 2010	-	159	-	159
General	85	5,361	4,948	498
Horticulture	910	1,599	1,400	1,109
Jeans Day Fund	1,757	526	951	1,332
Junior Achievement	700	-	-	700
Library	85	-	85	-
Parents for Safe Graduation	102	1,760	1,824	38
Physical Education	868	-	32	836
Baseball Team	1	-	-	1
Boys Basketball	99	-	-	99
Girls Basketball	149	-	-	149
Golf Team	1,600	-	-	1,600
Student Assistance	112	3,158	1,462	1,808
National Honor Society	339	192	479	52
W.I.S.E.	331	-	-	331
Yearbook	4,577	6,034	8,353	2,258
Public Communication	-	40	-	40
Changing Lives Program	-	13,520	-	13,520
Vending Machines	<u>749</u>	<u>411</u>	<u>618</u>	<u>542</u>
Total high school groups	<u>33,172</u>	<u>51,078</u>	<u>43,694</u>	<u>40,556</u>
Elementary school groups				
Elementary Activity	424	1,567	485	1,506
Elementary Jeans Day Fund	939	-	-	939
Sixth Grade	300	408	282	426
Upper elementary	<u>5,248</u>	<u>7,230</u>	<u>7,515</u>	<u>4,963</u>
Total elementary school groups	<u>6,911</u>	<u>9,205</u>	<u>8,282</u>	<u>7,834</u>
Scholarship payable				
Harold G Sellers Scholarship	<u>2,337</u>	<u>-</u>	<u>-</u>	<u>2,337</u>
Total liabilities	<u>\$ 42,420</u>	<u>\$ 60,283</u>	<u>\$ 51,976</u>	<u>\$ 50,727</u>

INTERNAL CONTROL AND COMPLIANCE



**INDEPENDENT AUDITORS' REPORT ON INTERNAL
CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

August 4, 2006

Board of Education
Littlefield Public School
Alanson, Michigan

We have audited the financial statements of *Littlefield Public School* (the "District") as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements, and have issued our report thereon dated August 4, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described as follows:

Due to staff size, there is limited segregation of duties over cash receipts and disbursements and the recording of these transactions. The District recognizes this risk, but no change will be implemented because the costs would exceed the benefits.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

We also noted other matters involving the internal control over financial reporting that we have reported to management of the District in a separate letter dated August 4, 2006.

Compliance and other matters

As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, others within the organization, and the Board of Education and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, prominent 'L' at the beginning.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

August 4, 2006

Superintendent and Members of
the Board of Education
Littlefield Public School
Alanson, MI

Through our role in performing financial statement services for the past several years, we have become familiar with your systems, operations and management team. As we work with our clients, we strive to provide direction and constructive feedback to help facilitate their success. The better we get to know you and your objectives, the more we can offer in terms of proactive advice.

In planning and performing our audit of the financial statements of ***Littlefield Public School*** for the year ended June 30, 2006, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during the above-mentioned engagement, we became aware of opportunities for strengthening controls and improving operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters. This letter does not affect our report dated August 4, 2006 on the financial statements of ***Littlefield Public School***.

We have already discussed these comments with the Superintendent and Bookkeeper, and we would be pleased to discuss them in further detail at your convenience.

If we can be of assistance, we hope you will view us as an integral part of your team.

Best wishes for a successful 2006-2007.

Encl.1

Littlefield Public School
Comments and Recommendations
June 30, 2006

APPROVALS OF PURCHASE REQUISITIONS

It is the District's policy that a requisition form must be completed in order to purchase goods. The individual requesting the purchase completes the form. The form is then to be submitted to either the principal in charge or the supervisor for review and approval, as evidenced by signatures on the form. We noted that several requisition forms were submitted for payment and were processed without the necessary approval signatures. Also, it was noted that some requisitions were submitted after the goods had been purchased. It is important that all purchase requisitions be properly approved in order for the District to maintain adequate controls over its expenditures. We recommend that any purchase requisition submitted for payment not be paid unless appropriate approval signatures are obtained.

DECENTRALIZED CASH RECEIPTS

The District collects cash at several remote sites during athletic events and other activities. Generally, a gatekeeper, hired by the District, is responsible for ticket sales. At the conclusion of the event, a deposit bag is prepared and turned over to school officials for deposit. To prevent a misappropriation of assets and to ensure the timely recording of revenue collected, we recommend that the District develop a process for reconciling ticket sales to cash collected prior to deposit. The District may consider the use of pre-numbered, color coded tickets. Different colors could be used for the different priced tickets. The beginning and ending numbers used could be accounted for on each ticket roll providing the seller with the number of tickets sold at the end of the event. The number of tickets sold at each price could be calculated and compared to the cash collected as part of the reconciliation process. At the end of the evening, two individuals should count the money and prepare the reconciliation, initialing the form when complete. The deposit bag may then be prepared for deposit and turned over to the school official. The accounting office could then compare cash deposited per the reconciliation to the duplicate deposit slip for accuracy. If significant differences resulted between the reconciliation and cash actually on hand, the discrepancy could be resolved on a timely basis.

BANK RECONCILIATIONS

During our audit procedures, it was noted that monthly bank reconciliations are prepared manually by the bookkeeper. The District's accounting software will allow the check register to be exported to an Excel computer spreadsheet file. This will enable the bookkeeper to generate bank reconciliation data in a more efficient manner. The bookkeeper has already set procedures in place to generate bank reconciliations electronically. Also, in August 2006, the bookkeeper was able to access bank account information on the bank's internal website, which will enable more timely data in order to reconcile bank accounts. We recommend that the bank reconciliations be produced in an electronic, rather than manual, format. This will allow bank reconciliations to be produced more efficiently and accurately.

Littlefield Public School
Comments and Recommendations
June 30, 2006

GASB 34 FUND

Governmental Accounting Standards Board (GASB) Statement No. 34 required governmental entities, such as schools, to present certain information in District-wide financial statements. The District successfully implemented GASB 34 for its year ending June 30, 2004. A separate fund is to be setup in order to account for GASB 34 requirements. However, the District currently does not have this fund set up on its trial balance. While the State of Michigan does not yet require this fund to be included in the District's accounting records, we recommend that the District create this fund on its trial balance and adjust it annually.

CONCLUSION

It has been a pleasure to provide audit services to *Littlefield Public School*. Management was prepared for the audit, providing us with a reasonably adjusted trial balance and all supporting documents requested. Thank you for providing all requested information.

We appreciate your business! Thank you.